

## Message Text

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ACTION AF-06

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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COME-00 AGR-10 /093 W

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R 011550Z APR 76

FM AMEMBASSY CAPE TOWN

TO SECSTATE WASHDC 5064

INFO AMEMBASSY PRETORIA

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

UNCLAS SECTION 1 OF 2 CAPE TOWN 0350

1. SUMMARY. IN HIS BUDGET SPEECH PRESENTED MARCH 31, FINANCE MINISTER SAID EXTERNAL INFLUENCES, BOTH POLITICAL AND ECONOMIC, REQUIRE INCREASED ECONOMIC AND MILITARY PREPAREDNESS. ALSO CITING NEED TO COMBAT INFLATION, HE PRESENTED BUDGET DESIGNED TO HOLD DOWN NON-DEFENSE SPENDING AND TO RAISE AN ADDITIONAL R173 MILLION (R1.00 - \$1.15) THROUGH INCREASED PERSONAL, CORPORATION AND SALES AND EXCISE TAXES. DEFENSE SPENDING WILL BE INCREASED BY 40 PERCENT OVER LAST YEAR. OTHER EXPENDITURES INCREASES INCLUDE EDUCATION 15.6 PERCENT, RAILWAYS 17.1 PERCENT, COMMUNITY DEVELOPMENT 19.7 PERCENT AND BANTU ADMINISTRATION AND DEVELOPMENT 15.5 PERCENT. TAX INCREASES INCLUDE ADDITIONAL SURCHARGE OF 5 PERCENT PLUS 10 PERCENT LOAN LEVY ON BOTH INDIVIDUALS AND CORPORATIONS, AND AN EXTRA 2.5 PERCENTS PER LITRE ON PETROLEUM PRODUCTS, AND INCREASE IN LIQUOR (INCLUDING WINE AND BEER), CIGARETTE AND SALES TAXES. END SUMMARY.

2. SENATOR HORWOOD SAID THAT WHILE ECONOMIC SLOWDOWN MIGHT SEEM TO CALL FOR EXPANSIONIST BUDGET, EXTERNAL PRESSURES, BOTH POLITICAL AND ECONOMIC REQUIRED A DIFFERENT APPROACH. CITING THE NEED TO INCREASE DEFENSE EXPENDITURES, MAINTAIN ECONOMIC STRENGTH, PARTICULARLY TO SAFEGUARD BALANCE OF PAYMENTS AND TO

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CURB INFLATION, FINANCE MINISTER SAID CONDITIONS REQUIRED "CON-

SERVATIVE" BUDGET WHICH WOULD STRICTLY CONTROL STATE EXPENDITURE AND AS FAR AS POSSIBLE FINANCE IT FROM NON-INFLATIONARY SOURCES. HE NOTED THAT 76/77 BUDGET DEFICIT OF R1,463 MILLION IS ONLY A NOMINAL INCREASE OF 2 PERCENT OVER 75/76 DEFICIT AND REFERRED TO EARLIER STATEMENT THAT TOTAL EXPENDITURE OF R7,534 M. IS ONLY 10.5 PERCENT OVER REVISED FIGURE FOR 75/76. THE MINISTER CONCLUDED THAT HE HAD COMPLIED WITH UNDERTAKINGS GIVEN THE INTERNATIONAL MONETARY FUND LAST NOVEMBER THAT STATE EXPENDITURES IN 76/77 WOULD INCREASE AT A SLOWER RATE THEN IN 75/76 AND THAT BUDGET DEFICIT WOULD NOT INCREASE IN REAL TERMS.

3. IN SUMMARIZING ECONOMIC DEVELOPMENTS DURING PAST YEAR, HORWOOD NOTED UNCHARACTERISTICALLY LOW GROWTH RATE OF REAL GROSS DOMESTIC PRODUCT OF 2 1/4 PERCENT BUT COMPARED THIS TO MINUS 2 PERCENT GROWTH RATE OF OECD COUNTRIES. HE CITED THE UNFORESEEN PROLONGATION OF OVERSEAS DEPRESSION AND FALL IN GOLD PRICES AS MAJOR UNFORSEEN EXTERNAL FACTORS WHICH REDUCED SOUTH AFRICAN GROWTH RATE AND NECESSITATED LAST SEPTEMBER'S DEVALUATION. HE SAID THAT WHILE DEVELOPMENTS IN ANGOLA AND MOZAMBIQUE MIGHT BE EXPECTED TO CONSTITUTE THIRD EXTERNAL FACTOR EXERCISING UNFAVORABLE INFLUENCE ON BALANCE OF PAYMENTS, THE CONFIDENCE OF "INFORMED" AND RESPONSIBLE" QUARTERS ABROAD IN SOUTH AFRICAN ECONOMY CONTINUE "UNABATED". THE MINISTER NOTED THAT DESPITE ADVERSE ECONOMIC DEVELOPMENTS AND DEFICIT ON CURRENT ACCOUNT OF BALANCE OF PAYMENTS OF R1,616 M., HE WAS ABLE TO TRANSFER R396 M. TO THE STABILIZATION ACCOUNT AND STILL END THE YEAR WITH A NET SURPLUS OF R57 MILLION.

4. EXPENDITURES. MINISTER NOTED THAT BEGINNING WITH THIS BUDGET, EXPENDITURE ESTIMATES WILL BE PRESENTED UNDER ONE HEADING RATHER THAN UNDER SEPARATE REVENUE AND LOAN ACCOUNTS. AGGREGATE EXPENDITURES FOR FY 1976-77 ARE ESTIMATED AT R7,792 MILLION OR 10.5 PERCENT HIGHER THAN REVISED ESTIMATES FOR LAST YEAR. BY FAR THE LARGEST INCREASE IS DEFENSE, UP ALMOST 40 PERCENT. STATING THAT SOCIAL PRIORITIES MUST ALSO RECEIVE DUE ATTENTION, MINISTER ANNOUNCED OTHER INCREASES WHICH INCLUDE 15.6 PERCENT FOR NATIONAL EDUCATION, 17.1 PERCENT FOR RAILWAYS, 19.7 FOR COMMUNITY DEVELOPMENT (INCLUDING 38.3 PERCENT MORE FOR NATIONAL HOUSING FUND) AND 15.5 PERCENT FOR BANTU ADMINISTRATION AND DEVELOPMENT (LATTER INCLUDES R30 MILLION FOR

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PURCHASE OF LAND). HE ALSO ANNOUNCED INCREASED SOCIAL PENSIONS BUT DIFFERING RATES FOR VARIOUS POPULATION GROUPS (R8 PER MONTH FOR WHITES, R4.50 FOR COLOURED, INDIAN AND CHINESE AND R3.50 FOR BANTU) DREW DISPARAGING COMMENTS AMONG SOME SECTIONS OF ENGLISH-LANGUAGE PRESS. PENSIONS FOR RETIRED CIVIL SERVANTS WERE INCREASED ON A SIMILAR BASIS.

5. DEFENSE APPROPRIATION. IN REQUESTING R1.350 M. FOR DEFENSE,

HORWOOD NOTED THAT THIS WAS AN INCREASE OF NEARLY 40 PERCENT OVER 75/76 AND NEARLY 100 PERCENT MORE THAN IN 74/75. HE ADDED, HOWEVER, QUOTE. LEST THERE BE ANY MISUNDERSTANDING, LET ME STATE CLEARLY AND CATEGORICALLY THAT SOUTH AFRICA HAS NO AGGRESSIVE INTENTIONS TOWARDS ANY COUNTRY, BUT THAT WE SHALL DEFEND OUR BORDERS WITH ALL THE FORCE AT OUR COMMAND IS BEYOND DOUBT OR CHALLENGE. UNQUOTE. LATER IN HIS SPEECH HORWOOD SAID QUOTE DEFENSE IS PERHAPS THE PRINCIPAL DUTY OF THE STATE AND, IN THE PRESENT UNCERTAIN SITUATION IN SOUTHERN AFRICA, THE HOUSE WILL CERTAINLY WELCOME THE INCREASED PROVISION FOR DEFENCE, EVEN THOUGH IT ENTAILS A HEAVIER BURDEN ON THE TAXPAYER. UNQUOTE. STATING THAT HE WAS CONFIDENT THE PUBLIC WOULD INVEST GENEROUSLY IN THE NEW DEFENCE BONDS TO BE ISSUED, THE MINISTER CITED ADAM SMITH'S WORDS QUOTE DEFENSE IS OF MUCH MORE IMPORTANCE THAN OPULENCE. UNQUOTE.

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INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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COME-00 AGR-10 /093 W

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R 011550Z APR 76

FM AMEMBASSY CAPE TOWN

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6. REVENUES. MINISTER ESTIMATED REVENUE FROM EXISTING CUSTOMS, EXCISE AND SALES TAX AT R1,162 M. AND RECEIPTS FROM INLAND REVENUE AT R4,890 M. FOR TOTAL ON BASIS EXISTING TAXATION OF R6,052, LEAVING A DEFICIT BEFORE BORROWING OF R1,780 M. REDEMPTION INTERNAL AND EXTERNAL LOANS OF R376 M. AND R200 M. RESPECTIVELY

BRING TOTAL REQUIRED FINANCING TO R2,356M. WITH INTERNAL AND EXTERNAL LOANS, BOTH NEW AND RENEWED, ESTIMATED AT R1,233 M. AND OPENING BALANCE OF R52M., AMOUNT OF ADDITIONAL FUNDING REQUIRED IS R1,071M. ISSUANCE OF NEW SPECIAL DEFENCE BONDS, TERMS AND CONDITIONS TO BE ANNOUNCED LATER, EXPECTED TO RAISE R120M., LEAVING SHORTFALL OF R951M. THIS TO BE MET AS FOLLOWS: INCREASES IN CUSTOMS EXCISE AND SALES TAX R275M., FROM DIRECT TAXES (SURCHARGE ON PERSONAL AND CORPORATE TAXES) R148M. AND FROM LOAN LEVIES R290M. FOR TOTAL OF R713M. SHORTFALL OF R240M. TO BE MET FROM STABILIZATION ACCOUNT. GIVEN TRANSFER OF R396M. TO STABILIZATION ACCOUNT FROM 1975 REVENUES, BALANCE IN THAT ACCOUNT WILL TOTAL R582M. ONLY CONCESSION ON TAXES OFFERED BY MINISTER WAS INCREASED OF TAX ABATEMENT FOR PERSONS OVER 60 YEARS OF AGE FROM R600 TO R700.

7. AMONG INDIRECT TAXES RAISED WERE SALES TAXES AND DURITES ON UNCLASSIFIED

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WINE, SPIRITS, BEER, SOFT DRINKS, TOBACCO AND PETROLEUM PRODUCTS, WITH THE LATTER BEING MOST SIGNIFICANT AT 2.5 PCENTS PER LITER. AMONG OTHER ITEMS REQUESTED BY MINISTER WERE: ELIMINATION OF TAX EXEMPTION ON DIVIDENDS FOR NON-SOUTH AFRICAN COMPANIES DOING BUSINESS HERE, INCREASE FROM 25 TO 33 AND ONE THIRD PERCENT ON UNDISTRIBUTED PROFITS TAX AND AUTHORITY FOR MINISTER OF FINANCE TO INCREASE OR DECREASE LOAN LEVIES ONLY BY A MAXIMUM OF 10 PERCENT BOF BAIS TAX WITH SUBSEQUEN RATHER THAN PRIOR PARLIAMENTARY APPROVAL.

8. MINISTER CONCLUDED BY SAYING THAT FACT THAT BUDGET LIKELY BE UNPOPULAR WAS IRRELEVANT. HE ARGUED THAT WHILE IN CIR- COMSTANCES IT COULD NOT BE STIMULATORY, IT DID ASK REALISTIC SACRIFICES AND WOULD BE ABLE TO PUT ECONOMY ON SOUND BASIS SO THAT FOUNDATION COULD BE BUILT FOR RENEWED RAPID DEVELOPMENT IN FUTURE.  
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## Message Attributes

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